



# **OFFICE OF INSPECTOR GENERAL**

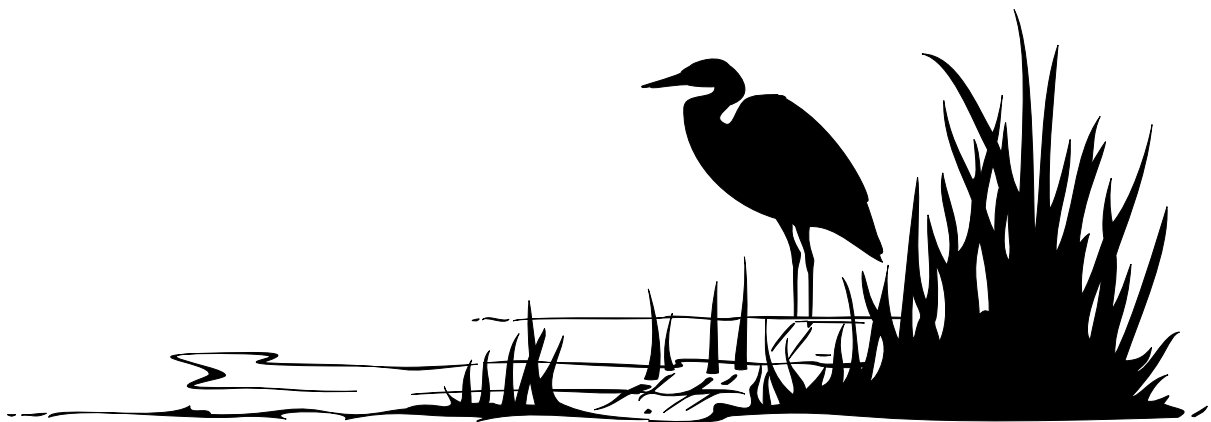
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## **REPORT OF REVIEW**

### **SPECIAL REVIEW OF LESSONS LEARNED FROM the NEW HAMPSHIRE GRANT FLEXIBILITY DEMONSTRATION PROGRAM**

**SEPTEMBER 30, 1996**

**E1FMG6-01-0031- 6400102**



**Inspector General Division  
Conducting the Audit:**

**Eastern Audit Division  
Boston, Massachusetts**

**Region Covered:**

**Region 1**

**Offices Involved:**

**Office of Ecosystem  
Protection**

**Office of Administration  
& Resource Management**



UNITED STATES ENVIRONMENTAL PROTECTION AGENCY  
OFFICE OF THE INSPECTOR GENERAL  
EASTERN AUDIT DIVISION  
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BOSTON, MASSACHUSETTS 02203-0001

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**September 30, 1996**

**MEMORANDUM**

**SUBJECT:** Special Review of the Lessons Learned From the New Hampshire Grant Flexibility Demonstration Program Report No. E1FMG6-01-0031-6400102

**FROM:** Paul D. McKechnie /s/  
Divisional Inspector General  
Eastern Audit Division

**TO:** John DeVillars  
Regional Administrator  
New England Region

The Eastern Audit Division (EAD) has conducted the attached review entitled "*Special Review of Lessons Learned from the New Hampshire Grant Flexibility Demonstration Program*". The New Hampshire demonstration grant illustrated barriers do exist to the straightforward implementation of the block grant or consolidated Federal funding concept. However, with the elimination of these barriers, we believe the state will be afforded greater flexibility, reduce micro-management, and reduce wasteful paperwork.

The special review was performed at both the New England Region, Boston, Massachusetts (hereafter referred to as Region 1) and at the New Hampshire Department of Environmental Services, (NHDES), Concord, New Hampshire. My staff have discussed these issues with Region 1 and NHDES program managers and we are pleased with the cooperation we have received from them.

**Action Required**

In accordance with EPA Order 2750, we ask that you provide us with a written response to the review within 90 days of the final report date. The report contains issues and recommendations regarding the administration of the demonstration program. For corrective action planned but not completed by your response date, reference to specific milestone dates will assist this office in deciding whether to close this report.

**We have no objections to the further release of this report to the public. This report does not contain confidential or proprietary information that cannot be released to the public.**

**This report contains matters that describe the issues the Office of Inspector General (OIG) has identified and corrective action the OIG recommends. This report represents the opinion of the OIG. Final determination on matters in this report will be made by EPA managers in accordance with the established EPA audit resolution procedures. Accordingly, the matters in this report do not necessarily represent the final EPA position.**

**Should you or your staff have any questions about this report, please contact Wilfredo Vazquez-Pol, Principal Team Leader, at (617) 565-3160.**

**Attachment**

**CC: Robert W. Varney, Commissioner, New  
Hampshire Department of Environmental Services**

## **EXECUTIVE SUMMARY**

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### **RESULTS-IN-BRIEF**

The Environmental Protection Agency (EPA) and the State of New Hampshire, Department of Environmental Services (NHDES) need to implement specific actions to eliminate barriers that currently prevent realization of increased state flexibility, and achievement of improved environmental outcomes. Elimination of the barriers will help ensure that the future Performance Partnership Grant (PPG) Programs with NHDES and other states will be successful.

The New Hampshire demonstration grant illustrated that barriers do exist that hinder the straightforward implementation of the block grant or consolidated Federal funding concept. However, with the elimination of these barriers, we believe the State will be afforded greater flexibility, reduce micro-management, and wasteful paperwork. As a result, administrative efficiencies should occur, and increased State-targeted environmental accomplishments should be realized, resulting in administrative savings and improved environmental performance for New Hampshire.

The demonstration grant did provide a more streamlined grant process for the State of New Hampshire which included:

- Grant applications reduced from five to two.
- Work plans reduced from five to one.
- Financial Status Reports reduced from five to two.
- Status report submissions reduced from five to two.
- Drawdowns of grant funds was simplified.

**The Pilot Demonstration grant did result in administrative efficiencies, however the success of the pilot was limited because of two major obstacles that were not addressed when the demonstration program for New Hampshire was formulated:**

- **The pilot used current statutory authority which prohibited the reprogramming of funds for the Water Infrastructure Fund (WIF) appropriation. This required the removal of Clean Water Act § 106 funds from the WIF components of the proposal because EPA could not reprogram across appropriations. Accordingly, the state was unable to consolidate their water program under one grant.**
- **State officials who in the past were responsible for individual grants were reluctant to change to a consolidated system because of their concern that their program would not be adequately funded. As a result, the tracking, reporting, and control of federal grant funds for internal purposes continued as they had been accounted for under a categorical grant system.**

**Additionally, the pilot did disclose barriers to increasing flexibility and improving environmental results. These included:**

- **development of performance measures that were not based on time-specific outcomes, were not quantifiable and did not provide adequate accountability.**
- **lack of a timely formal evaluation of the pilot by Region 1 to ensure lessons learned were incorporated into PPG guidance.**

- lack of a mechanism that would measure administrative savings.

While NHDES's Pilot encountered the obstacles previously mentioned, we feel that the December 1995 guidance developed for the PPG program will help address many of the barriers that limited the success of the pilot in New Hampshire.

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**PURPOSE**

The demonstration grant is a prelude to the future Performance Partnership Grant (PPG) Program<sup>1</sup>, which is a part of EPA's continuing effort to increase State flexibility, improve inter-governmental partnership, and to help improve state and tribal environmental protection capacity. Lessons learned from the administration of the demonstration grant can be used to foster the success of future PPGs.

Part of the OIG's Mission Statement is to review and make recommendations not only to existing but proposed legislation and regulations relating to Agency programs and operations. Therefore, we offer this advisory report for the Agency's use in building a strong PPG program.

The Office of Inspector General (OIG) has completed an assessment to determine the lessons learned from the New Hampshire Demonstration Grant Flexibility Program. The purpose of our review was to evaluate EPA's management and oversight of the demonstration grant awarded to the NHDES. We also determined NHDES concerns in the effective implementation and management of the demonstration grant at the state level. Specific objectives were to:

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<sup>1</sup> President Clinton announced the Performance Partnership Grants Program on March 16, 1995, as part of the "Reinvent Environmental Regulation" program.

- **determine if the pilot accomplished its intended purpose;**
- **ascertain if grant performance measures were established that were measurable, and contained time specific outcomes;**
- **determine if the Region developed oversight procedures that allow the State the flexibility the Agency has promised while, ensuring the appropriation requirements were being met; and**
- **report the lessons learned to the Agency.**

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**SCOPE AND  
METHODOLOGY**

**We conducted our review during the period December 1995 through June 1996. We evaluated the New Hampshire grant to determine what lessons could be learned from the pilot program that could be applied to PPGs. Our work was conducted in the Region 1 program offices, Boston, Massachusetts and the New Hampshire Department of Environmental Services offices in Concord, New Hampshire.**

**To ascertain if the pilot program attained its proposed objectives, we reviewed; Regional Project Officer's files and obtained a list of the grants included in the demonstration, decision memos pertaining to the demonstration grant and grant evaluation plans. We also reviewed EPA draft and approved PPG guidance. To obtain clarification and explanation about the matters found during our file reviews we interviewed Region 1 management officials and State of New Hampshire NHDES officials who administered the demonstration grant. We held discussions with the Director, State of New Hampshire Office of Legislative Budget Assistant, Audit Division, and members of his staff.**

**We interviewed the Regional Project Officer and other Region 1 officials and determined if; visits had been made to the state to assist in the administration and oversight of the demonstration grant, required written evaluations had been**



made, lessons learned from the demonstration grant had been documented and reasons why the program was considered to be successful or not.

Through discussions with NHDES officials we determined; if the pilot program provided the State with more flexibility in the use of grant funds, resulted in cost savings as planned, and whether or not the State was ready to enter into a PPG with EPA at the current time. We ascertained State officials concerns and areas they believed needed improvement before entering a PPG. We determined through interviews whether State officials believed the demonstration grant was successful and their specific reasons for their beliefs.

We reviewed FY95 and FY96 demonstration grant work plans and determined if the performance measures and time specific milestones contained in the work plans were measurable and realistic. We reviewed State progress reports to determine if required reporting requirements were met and we determined if the State's financial federal fund matching and reporting requirements were effectively managed.

Our review was performed in accordance with OIG Manual Chapter 150 for Special Reviews. Special reviews are short-term studies of EPA activities. They are not designed to be statistical research studies or detailed audits. Rather, they are information gathering studies that seek to identify issue areas for top management attention. The goal of a special review is to produce timely, constructive change, while minimizing the resources invested in studying and documenting the issue areas.

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**BACKGROUND**

As part of EPA's reinvention and state capacity building efforts Region 1 awarded a demonstration pilot grant to New Hampshire in fiscal year 1995. The pilot program responded to the recommendations from the National

**Performance Review<sup>2</sup> regarding the Agency's need to develop State and Tribal environmental protection capacity, increase flexibility, improve intergovernmental partnerships, help States and Tribes improve environmental performance, and increase ability to achieve administrative savings by reducing and streamlining the grants process.**

**The pilot grant focused on pooling of separate categorical water grants into a consolidated watershed grant focusing on program performance and environmental results. The watershed protection approach refocuses existing programs to operate in a comprehensive and interested manner. This approach was based on the implementation of the full range of water programs, participation by stakeholders in the decision-making process, and targeting priority problems within the watersheds.**

**From a grant demonstration prospective, the purpose of the pilot was to test the pooling of several water program grants in a unified work plan to fund an alternative coordinated approach to achieving program objectives. Currently this approach was not possible because of the requirements that funds for these categorical programs be spent on specified activities, the widely differing matching and maintenance requirements, the separate record keeping, reporting requirements, and the requirement for the accounting systems which provide the accurate audit trails back to the specific authorized statutes. The demonstration grant was based on an agreed upon work plan and an evaluation plan negotiated with the State by EPA-Region 1 staff. The Demonstration Grant was implemented for a two year period, October 1, 1994 through September 30, 1996.**

**The consolidated water grant was awarded to NHDES covering the programs under the CWA to give the State greater flexibility in the use of the environmental grant funds**

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**<sup>2</sup>The National Performance Review: "Creating a Government That Works Better and Costs Less"; September, 1992.**

to achieve improved environmental outcomes. The pilot tested the effectiveness of a consolidated water grant that would provide the State with the opportunity to streamline the process of applying for and receiving federal financial assistance under the CWA and enable the State to implement water quality programs based upon strategic plans which address the highest environmental risks on a watershed basis.

The pilot consolidated grant covered the entire range of the state's water pollution prevention and control and water quality management planning efforts for both surface and ground waters (i.e., permitting, enforcement, pollution control studies, water quality planning, sampling and monitoring, waste allocation, water quality standards, nonpoint source planning and implementation, ground water protection, assistance to localities, training, public information, etc.).

The New Hampshire pilot reduced the water program to two components: 1) a combined Water Infrastructure Funding (WIF) appropriation grant { 604 (b), 319 (h) and 104 (b)(3)}; and 2) an Abatement, Compliance and Control (AC&C) appropriation grant (106). It should be noted that the State used grant appropriation 106 (b), which segregates surface and ground water fund accountability. The consolidated grant demonstration pilot was based on a NHDES Unified Water Program Work Plan - FY95. The work plan was updated for FY96. Although EPA intended to work with Congress early in the budget process to reprogram WIF funds to allow for a single demonstration grant in FY96 no changes were made by Congress to allow this change in FY96. The total amount of federal funds provided to NHDES under the demonstration grant as of April 4, 1996, was \$2,787,495.

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**AUDITEE COMMENTS**

On September 9, 1996, Region 1, Office of Ecosystem Protection- Strategic Planning Office, provided a written response to the draft report. They generally agreed with our findings and recommendations. An exit conference was held with staff members from the Strategic Planning Office

## **SPECIAL REVIEW OF NEW HAMPSHIRE DEMONSTRATION GRANT FLEXIBILITY PROGRAM**

**on September 23, 1996. The Strategic Planning Office comments were fully considered in the preparation of the final report and are included as Appendix 1, in its entirety.**

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## **ISSUES AND RECOMMENDATIONS**

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### **GRANT PROCESS** **STREAMLINED**

The demonstration program successfully illustrated that administrative efficiencies can occur, with a reduction in Federal paperwork requirements for application, work plan, drawdown of funds, and reporting requirements. New Hampshire staff prepared two grant applications rather than five separate applications, and only two financial status reports, rather than five which would have been required under the traditional categorical grant process. Further, New Hampshire developed one unified work plan that encompassed both of the grants awarded under the demonstration program. Drawdowns were simplified from five accounts to two. As a result of these events, Federal paperwork and process requirements were significantly reduced for NHDES.

However, we were advised by the NHDES officials that even though their Federal reporting requirement had been reduced by the pilot program that State officials continued to request reports that broke out the funds on a fund by fund basis, thus defeating the intent to reduce reporting requirements. Additionally, for the purpose of documenting level of effort and match requirements, NHDES felt it was necessary to break out expenditures on a fund by fund basis to demonstrate adherence to Federal matching requirements. NHDES staff did not believe it prudent to change their system for a pilot program which may or may not result in significant changes in accounting for match and level of effort mandates. NHDES did not feel they had been given adequate guidance in this area.

Concerns with how to account for share requirements was an example of a barrier that prevented State buy-in to the demonstration approach.

**APPROPRIATION LAW**  
**PREVENTED**  
**PILOT SUCCESS**

Region 1 was unable to consolidate targeted water programs in New Hampshire because appropriation laws prohibited the reprogramming of certain grant funds. The Agency was not aware of this important factor when the demonstration program was formulated, as a result, the flexibility and reduction in administrative burden was not reduced to the degree promised during negotiations.

The purpose of the demonstration grant was to give the state greater flexibility by pooling categorical grant funds. The pilot program was less successful because it used current statutory authority which prohibited the reprogramming of funds for the Water Infrastructure Fund (WIF) appropriation. This required the removal of Clean Water Act § 106 funds from the WIF components of the proposal because EPA could not reprogram across appropriations. Lack of fund flexibility prevented the State from consolidating their water program under one grant, which defeated the major purpose of the demonstration grant.

The Region 1 Project officer for the pilot advised he didn't believe EPA was aware of these appropriation requirements and EPA didn't do enough up-front planning to ensure the program would work before the demonstration grant was awarded.

In a memo dated March 20, 1996 the Region 1 Project Officer stated, "Although the concept of the flex demo was excellent, in the end we were not granted any of the flexibility issues requested, namely, HQ did not realize until almost NOV. that they could not unilaterally reprogram funds across appropriations.

**"Although the concept of the flex demo was excellent, in the end we were not granted any of the flexibility issues requested..."**

**-Region 1  
Project Officer**



Therefore, this demo project did not lump, or combine any funding sources as originally planned."

The EPA Region 1 Project Officer also said that a request had not been made to allow the reprogramming of grant funds. This requires a waiver from Congressional appropriation laws. EPA officials felt it was too late in the process to seek congressional approval as required for reprogramming funds.

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**STATE MANAGERS  
CONTINUED TO  
ADMINISTER PILOT  
AS CATEGORICAL**

Additionally, NHDES officials advised that even if the funds had been consolidated as planned by the pilot program, the State would continue to administer, track, and report the funds as individual grants because of state appropriation requirements and program managers preference. Further, when NHDES developed their budget for the New Hampshire State Legislature for FY 95 and 96 NHDES stated their request detailed 8 appropriation codes for the Consolidated grant, this in turn mandated NHDES to account for each fund separately. We were advised that NHDES could have requested a change in state appropriation law, however, with the uncertainty of the pilot program and EPA's inability to reprogram funds, NHDES decided to stay with the status quo.

The NHDES infrastructure has been designed to mirror the major environmental medias; water, air, and waste management. Within these divisions, the state has fashioned a system of bureaus based on funding received from the Federal Government for the environment. With a categorically-designed infrastructure, State managers are responsible for a small segment of a particular division and funding for that section has been earmarked via a categorical grant from EPA. Even though the grants awarded were reduced to two, we were advised

"...the grants administrator must track and report 8 accounts which defeats the purpose of consolidating grants into only two..."

-NHDES Senior Planner

that the NHDES grants administrator was required to account for the funds via 8 account numbers at the request of state managers.

With concerns over funding, workload and potential loss of staff that a block grant concept could bring, State officials advised that NHDES

program managers would be reluctant to provide funds for another program and "turf battles" for program funds which

currently exist would be a barrier to the implementation of future Performance Partnership Grants. A NHDES official stated, "the plan hasn't significantly improved the way we do work...and without additional funds there would not be flexibility “.

“...the plan hasn’t significantly improved the way we do work...”  
NHDES Official

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**WORK PLAN  
MILESTONES  
AND ENVIRONMENTAL  
INDICATORS LACKED  
MEASURABILITY**

The Demonstration Grant performance measures and environmental indicators were not measurable, verifiable, and could not be matched to the time-specific pilot because there was no system of fiscal and program accountability in place to ensure compliance with appropriation and programmatic requirements. As a result, the ability of the Region to evaluate the successes of the demonstration program to help structure future PPGs was limited.

In the first year, FY95, of the demonstration program, EPA and NHDES utilized traditional outputs, commonly called “bean counts”, to demonstrate compliance with applicable regulations. For example, the number of inspections, permits issued, investigations initiated etc.

NHDES’s FY96 work plan moved to a system that focused on environmental indicators, and environmental program results. Environmental indicators are measurable features which provide evidence of environmental and ecosystem

progress (quality) or evidence of trends in quality. To measure progress made, and determine effectiveness of programs, NHDES used a percentage factor in the FY96 work plan. For example, percentage of waters meeting their legislative classification. That is the percentage of waters suitable for swimming or recreational activities such as boating and fishing.

Based on our review of the performance measures included within the FY96 work plan we found that it would be nearly impossible to track, verify, collect data, and determine progress under the FY96 plan. For example, the FY96 work plan contained interim and long term milestone dates ranging from 1998 through 2008. The milestone for the Sacco/Androscoggin Basin is that 95% of the water will meet designated uses by the year 2000 and the long term goal is 100% by the year 2008.

A NHDES official advised the FY96 work plan was a change of direction for them. Region 1 requested a plan with milestones, milestone dates and environmental indicators however, since there was no data base, these outputs were based on the experience and knowledge of EPA and State officials.

In our opinion, Region 1 and NHDES need to work to develop program measures that are time-specific, verifiable, quantifiable, and can be tracked to expenditures. This area needs to be addressed to ensure compliance with appropriation laws and grant requirements. And should be addressed before the Region and the State of New Hampshire enter into a PPG. We believe the Region and NHDES has made a first step and has the opportunity under the PPG program to develop program measures that will meet the joint goal of accountability and environmental results.

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**SPECIAL REVIEW OF NEW HAMPSHIRE DEMONSTRATION GRANT FLEXIBILITY PROGRAM**

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**AUDITEE COMMENTS  
AND OIG EVALUATION**

Officials stated that although EPA and the States are moving toward the increased utilization of environmental performance measures based on environmental indicators it is a very difficult process. Officials further stated there are good reasons to pursue the use of environmental results measures in spite of the difficulties and uncertainties associated with their use. They stated, "In the longer term, they provide the only means of assessing whether the deliverables and actions produced as part of the strategy pursued are producing beneficial results. For this reason, their use should be nurtured and encouraged. We fear that treating them as elements of grant specific accountability (similar to performing inspections, writing permits, controlling expenditures to allowable costs) is infeasible and has the potential to discourage their use."

We agree that the area of performance measures and their relationship to performance accountability is a significant "lesson learned" from the demonstration grant and an area that requires clarification. We also believe that the Region and NHDES have made a first step by developing performance measures in the NHDES FY96 Work plan and has the opportunity, under the PPG program, to develop program measures that will meet the joint goal of accountability and environmental results. We encourage the Region and NHDES to continue to develop and improve this process.

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**COST SAVINGS  
COULD NOT BE  
DETERMINED  
UNDER THE PILOT**

Pilot grant administrative cost savings could not be determined. The Region Project Officer advised from the federal perspective savings can not be quantitatively measured. He stated we might be able to determine how much time has been saved, if any, through discussions with State officials however, it would be impossible to determine the dollar amount of cost savings.

State officials said there have been no documented administrative cost savings under the demonstration grant. The NHDES Grants Administrator stated that although EPA

only requires one Financial Status Report for each of the two grants under the demonstration program, the State of New Hampshire Budget Legislature still requires that the demonstration grant funds be reported by eight separate budget appropriated accounts. As we stated previously, this is because the State has not pooled grant funds but maintains fund accountability by individual grant appropriation. Additionally, financial budget appropriation reports are prepared and submitted monthly to NHDES program managers.

State officials advised that extensive negotiations with the Region over the content of work plans, and programmatic requirements eliminated cost savings generated from the reduction of the grant application process. They do feel confident that in the future cost savings will materialize.

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**REGION 1 DID NOT  
FOLLOW EVALUATION  
PLAN**

Region 1 has not effectively overseen the implementation of the demonstration grant administered by NHDES as required by the evaluation plan developed to report the successes and failures of the grant.

Evaluation of the success or failure of a demonstration program is an important ingredient in the development of the future PPG program. The Region was required to develop a comprehensive evaluation process to report the lessons learned. Region 1 recognized the importance the evaluation process played in the approval of the demonstration program within the decision memorandum dated December 20, 1994. "The Demonstration Grant will include an agreed upon work plan and an evaluation plan for measuring success". Additionally, the Region advised within the decision memorandum "...One important prerequisite of gaining EPA HQ and Congressional approval of the Demonstration grants was the development of an Evaluation Plan..."

The decision memo dated, December 20, 1994, stated:

**"The Region I Water Management Division (WMD) will continue to utilize the Region I Overview Policy and Performance Based Assistance Evaluation Plan (dated Jan 1986) to evaluate program progress and assure program accountability for all water program grants awarded to the New England states in FY95. This overview strategy requires a formal written midyear review process, an end of year program progress review, state program progress reporting to the project officers on a quarterly basis, and regular onsite visits by EPA program managers."**

**"...One important prerequisite of gaining EPA HQ and Congressional approval of the Demonstration grants was the development of an Evaluation Plan..."**

**EPA Region 1  
Decision Memorandum dated  
December 20, 1994**

**The Region 1 Project**

**Officer had not prepared the required written evaluations of program progress to assure program accountability for all water program grants awarded to the State of New Hampshire under the demonstration grant.**

**The Region 1 Project Officer could only provide us with one of the two state reports that had been submitted.**

**The Region 1 Grant Administration Chief advised that they had been unable to make site visits to the State of New Hampshire to assist the State in the administration of the demonstration grant because of budget concerns. Further the Region had not documented the "lessons learned" from the demonstration grant.**

**Evaluation of the success or failure of a demonstration program is an important ingredient in the development of the future PPG program. Even though the region developed a comprehensive evaluation process to report the lessons learned, they did not fully implement the evaluation process which ultimately defeats the purpose of having a demonstration program.**

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**SPECIAL REVIEW OF NEW HAMPSHIRE DEMONSTRATION GRANT FLEXIBILITY PROGRAM**

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**AGENCY COMMENTS  
AND OIG EVALUATION**

Region officials advised that subsequent to our review an evaluation report of the Demonstration program for the period ending 4/1/96 was completed and a draft of the evaluation was forwarded to the State for their review and comments. The draft report was prepared in detail and identifies program strengths and areas requiring additional attention.

We were advised that the draft has not been finalized or forwarded to EPA Headquarters. It is in the Agency's best interest that the evaluation report be finalized and issued as soon as possible so the "lessons learned" from the demonstration grant may be used in the management of future Performance Partnership Grants.

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**STATE CONCERNS**

The Demonstration Grant was designed to provide New Hampshire with a block grant type approach to their water program. Further, providing New Hampshire with flexibility in addressing their environmental needs, reducing overly detailed grant application processes and reducing Federal reporting requirements. Overall, NHDES felt that barriers did exist which prevented total success of the program.

The demonstration program was based upon a work plan with the State and EPA-Region 1 staff for a two year period. NHDES officials stated that the cost and time required to prepare a two year work plan were very high. They stated that they believed the demonstration grant was for a two year period but before the first year was completed new requirements and terms appeared inhibiting their ability to complete the plan. Changes had to be made to the work plan to include; environmental factors, milestones and factors to be used to measure accomplishments. NHDES officials stated if EPA intends to change the rules during the first year of a two year plan then it is better for EPA to establish the requirements for the state to follow.

A NHDES Senior Planner stated that both the Region and NHDES need to plan better. "We need to spend more time

**talking about road blocks down the road. We can't gloss over problems and say we will handle them when they occur. The update to the FY95 work plan is an excellent example. In the update we established goals, milestones and completion dates. This information could have been contained in the original FY95 work plan. How can you evaluate if a new concept is working if you change the measures half way through the process.?"**

**The NHDES Senior Planner also said that all parties should be realistic about program barriers before entering future PPGs. He stated: "...even with unlimited barriers you won't see changes happen overnight. We must set up realistic schedules. A good example is the state accounting system, we jumped into the demonstration program but the state financial reporting system hasn't changed. There have been no savings in financial administration because the system wasn't ready to change and it hasn't changed. Better up-front planning could have prevented this situation. I don't think we are ready to jump into a PPG at this time."**

**"I don't think were ready to jump into a PPG at this time".**

**NHDES planner**

**Additionally, the state officials advised they were promised flexibility, however, the consolidated grant contained 24 special conditions. A senior planner advised: "... there wasn't any flexibility when EPA attaches 24 special conditions..." The Region 1 Project Officer stated that he was unaware that NHDES staff had expressed any concerns over the changes made to update FY95 work plan. We believe that this is an area where better planning and greater EPA oversight would have been beneficial.**

**EPA staff should use the lessons learned from the New Hampshire Demonstration grant to implement improved management procedures prior to entering into future PPGs. Most important, EPA staff should take immediate action to ensure necessary Congressional appropriation laws are**



changed to permit the pooling of categorical grant funds. This will provide flexibility in the use of grant funds and provide an alternative coordinated approach to achieving program environmental objectives.

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**RECOMMENDATIONS**

We recommend that your staff:

- 1) Utilize “lessons learned” from the demonstration grant to work with EPA-Headquarters staff to help formulate a successful PPG program. Further to ensure elimination of statutory barriers, such as reprogramming or transferring of funds, before the implementation of the PPG program.
- 2) Work with the State of New Hampshire to educate the state to the benefits of the PPG program in order to obtain staff buy-in of the program.
- 3) Assist the State of New Hampshire and survey other states within the Region, to identify whether areas such as infrastructure and/or State laws may inhibit opportunities to implement the PPG program.
- 4) Work with the State of New Hampshire to develop program measures that are verifiable, quantifiable, and trackable to time-specific periods. Work to standardize measures or guidance for developing environmental indicators.
- 5) Ensure in the future that demonstration/pilot programs are evaluated in a timely manner to ensure lessons learned can be documented and utilized in the Agency’s decision-making process.

**SPECIAL REVIEW OF NEW HAMPSHIRE DEMONSTRATION GRANT FLEXIBILITY PROGRAM**

**AGENCY COMMENTS  
AND OIG EVALUATION**

On September 9, 1996, the Region 1 Office of Ecosystem Protection and Strategic Planning Office, provided a written response to the draft report. They generally agreed with our findings and recommendations. An exit conference was held with staff members from the Strategic Planning Office on September 23, 1996. Strategic Planning Office comments were fully considered in the preparation of the final report. The Strategic Planning Office's response in its entirety is included as Appendix 1.

**U.S. ENVIRONMENTAL PROTECTION AGENCY  
REGION I  
J.F.K. FEDERAL BUILDING, BOSTON, MA 02203-2211**

**MEMORANDUM**

**DATE:** September 9, 1996

**SUBJ:** Draft Special Review NHDES Grant Flexibility Demonstration  
(Program Report No. E1FMFG-01-0031)

**FROM:** Patricia L. Meaney, Assistant Regional Administrator /s/

**TO:** Paul D. McKechnie, Divisional Inspector General  
Eastern Audit Division

We have reviewed your draft Special Review of the New Hampshire Grant Flexibility Demonstration Program dated 8/6/96 prepared by the Office of the Inspector General.

Although we concur with most conclusions and statements included in the draft report, there were some statements that should be updated or corrected.

1. Scope and Methodology (page 4). The period of this review was from 12/95-6/96. I believe all interviews with the PO and EPA staff occurred in the February-March 1996 period. Consequently, some materials or information may be missing from this review and should be considered in any final report.
  - (a) Evaluation of NH Flex Grant - An evaluation report of the Flex Grant Demo for the period ending 4/1/96 was completed and mailed to the State on 5/15/96. This evaluation report was based on onsite evaluations by the EPA Project Officer and staff from EPA's NH State Unit and status reports submitted by NHDES. (A copy of this 5/15/96 Evaluation Report is attached for your reference.)
  - (b) Regional Reorganization - The EPA Region I reorganization was completed on 9/1/95 and established a NH State Unit within the Region's Office of Ecosystem Protection. At the time of this Special Review the regional organization was still in transition due to the delays caused by the government furloughs of 1995 and 1996. This NH State Unit is now fully functional and is now providing day-to-day program participation with NHDES.
  - (c) FY96 Budget - From October 1995, until the passage of the Omnibus Appropriations Act of 1996 in late April 1996, EPA was funded by a series of partial Continuing Resolutions (CRs) that forced EPA to provide funding to the States through a series of piecemeal grant actions. At the time of the Special Review EPA had only awarded approximately 50% of the FY96 grant funds to New Hampshire.

**APPENDIX 1**

2. Performance Measures (page 12). Even though EPA and the States are moving toward the increased utilization of environmental performance measures based on environmental indicators, it was understood at the outset that neither EPA nor New Hampshire had the science or data available to evaluate progress solely on this basis. Consequently, the Demo work plan and evaluation plan also included a mix of traditional program commitment measures. You state that, "NHDES's FY96 work plan moved to a

system that focused on environmental indicators and environmental results". You also state that, "Based on our review of the performance measures included within the FY96 work plan we found that it would be impossible to track, verify, collect data, and determine progress under the FY96 plan". The report acknowledges that the Region and NHDES has made a first step and has the opportunity under the PPG program to develop program measures that will meet the joint goal of accountability and environmental results.

We believe that the NHDES's workplan contained a mix of traditional measures (deliverables and activities) and results measures (environmental goals and indicators). As a lesson learned we think that the current state of direct environmental measurement will make results measurement unsuitable as an element of grant accountability for some time to come (and possibly forever). Therefore, we believe that grant performance accountability will need to stay in the realm of performance of deliverables and activities that are part of the strategies developed to achieve specified environmental results.

Development of meaningful, usable environmental goals and measures poses a variety of difficult issues relating to science, monitoring and data collection, analysis (such as isolating the impact on the environment of the actions of the strategies implemented from other factors affecting the state of the environment), and appropriate time frames (annual time frames will rarely work, and time frames of 10 or more years may prove most meaningful in some areas). All of these issues make environmental measures tenuous grounds for grant performance accountability.

Nevertheless, there are good reasons to pursue the use of environmental results measures in spite of the difficulties and uncertainties associated with their use. In the longer term, they provide the only means of assessing whether the deliverables and actions produced as part of the strategies pursued are producing beneficial results. For this reason, their use should be nurtured and encouraged. We fear that treating them as elements of grant specific accountability (similar to performing inspections, writing permits, or controlling expenditures to allowable costs) is infeasible and has the potential to discourage their development and use. Therefore, we think that grant performance accountability should focus on performance of deliverables and activities that constitute the strategies aimed at achieving results. Environmental goals and measures should be encouraged to be developed to their highest potential as an evaluation tool for planning the scope and direction of environmental protection efforts.

3. Cost Savings (page 12). We question only the choice of wording for the "cost savings section." The Regional Project Officer (PO) could not quantitatively measure cost savings; but from a qualitative standpoint, the PO felt there was a cost savings in reduced administrative paperwork.
4. Region Did Not Follow Evaluation Plan (page 14). (See 1a above.) An Evaluation Plan for period ending 4/1/96 was completed 5/15/96. Due to delays in funding, delays in the initiation of work activities, and the government shutdowns, it was felt that the period ending April 1, 1996, accurately

represented the first year of performance under the Demo Grant.

- It is anticipated that the budget period for the Demo Grant will be extended through 9/30/97. Subsequent evaluations will be conducted during the grant period and at the closeout of the grant.
5. **State Concerns** (page 15). The referenced changes made to the work plan in FY96 to include environmental measures and milestones were actually consistent with the original FY95 evaluation plan which indicated EPA and NHDES would cooperatively develop environmental indicators and environmental results measures over the period of the Demo Grant. (See page 11.)
6. **Lessons Learned**  
Page 2, second of the three bullets at the bottom of the page. The Project Officer did have an opportunity to bring his knowledge and experience gained from the early stages of the pilot to development of the PPG Guidance through participation on the National PPG Guidance Development Workgroup during the summer of 1995, before formal evaluation was scheduled.

If you have any questions or comments, please contact William Nuzzo at 565-3485.

Attachment

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